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Some lessons for 1921

[New York]

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Some Lessons for 1921

An Address

By

CHARLES H. SABIN

President, Guaranty Trust Company of New York

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Some Lessons for 1921

AN ADDRESS

By

CHARLES H. SABIN, President of the Guaranty
Trust Company of New York, as Chairman
of Group 8 of the New York State Bankers
Association, at the Annual Dinner of Group 8,
Monday, January 17, 1921

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Some Lessons for 1921

AN ADDRESS

BY

Charles H. Sabin, President of the Guaranty Trust Company of New York, as Chairman of Group 8 of the New York State Bankers Association, at the Annual Dinner of Group 8, Monday, January 17, 1921.

THE bankers of Group 8, in common with other American bankers, can view with satisfaction the record of the year they have just closed, and the prospects of the year to come. They have reason to be proud of the measure of service rendered, of stability maintained, of economic sanity and sound earnings which have attended their efforts. Never before in the history of the country have its credit resources been subjected to such a strain, and never before have recurrent crises been so adequately met and the business interests of the country so fully protected against dangerous tendencies. Thanks to a sound and elastic banking system and to the intelligent coöperation and wise direction of the banking institutions of the country, the United States has passed through a period of violent reaction, falling markets, and a world-wide economic disturbance without serious fatalities. Today we feel assured that, although there are many readjustments yet to be made in the months and years to come, there is every reasonable assurance of a return to more normal business conditions, stabilized prices, easier money and larger business opportunities during the current year.

SHOULD CAPITALIZE EXPERIENCE OF 1920

When 1921 was ushered in it is probable that every business man in the country heaved a sigh of relief

because 1920 had ended. And yet the last twelve months, despite all the trials and tribulations they brought us, were rich in experience which should be capitalized in the current year and for many years to come. While it has ironically been observed that all we learn from history is that we never learn from history, it is to be hoped that American business and financial interests will profit by the lessons that 1920 taught us and ultimately transcribe them on the right side of the ledger. In proportion to the amount of our intelligent application of those lessons will we make 1921 prosperous and lay the foundation for our future prosperity.

Surely 1920 impressed upon all of us the folly of extravagance in personal, business and governmental affairs. During the year that has just passed we should have learned as never before the folly and worse of undermining the moral basis upon which modern business is founded through unjustifiable repudiation of contracts. We should have realized the folly and danger of inefficiency; of unsound and uneconomic taxation; of Government participation in essentially private business; of trying to substitute legislative enactments and administrative decrees for natural economic laws; of permitting raids upon the Treasury for the benefit of any special interests—and, above all, for the purpose of sustaining the prices of any commodities above their market level. When commodity prices are artificially supported every element of our population, including finally even the favored class that temporarily profits, is penalized through keeping taxes high and preventing a reduction in the high cost of living.

The experiences which 1920 afforded in public finances should have taught our legislators that a taxing system based on temporary and abnormal conditions cannot justly be continued when those conditions have passed. An excess profits tax, for instance, will be adequately productive only so long as there are sufficient excess profits to tax, otherwise it must inevitably and rightly fail. France is learning, if we are not, that a tax which is dependent largely on the continuance of high prices is unscientific, for rational attempts toward a resumption of normal conditions and lower prices automatically act as checks on revenues.

MUST BE EARLY REVISION OF TAXES

While the exigencies of the hour may have originally justified Congress in resorting to a method of taxation as inequitable and as unsound in theory as the present taxes on profits and income, no excuse may be offered for continuing to levy such taxes during the critical period of transition from a war to a peace basis, and Congress must lend a sympathetic ear to the demands of business for an early revision of existing tax laws. Such revision should have as its objective a more equitable distribution of the burden of taxation.

The fundamental objection to our present method of raising revenue is that it is based in altogether too large a degree on income and profits and is designed to collect a vast amount of revenue with little regard to its effect on business. While other changes in the law may be desirable, three of its provisions stand out as especially obnoxious. These are the excess profits tax, the very high surtax rates and the taxation of paper profits which have not been realized and, in many cases, never will be realized.

The year that has just passed also contributed materially to the cumulative evidence of the necessity for according fair treatment to the railroads and the greater efficiency of private ownership as contrasted with Government ownership or control. Since their return to private management, the railroads have made great strides in bettering their service without additional equipment through applying efficient methods. And that improvement in transportation facilities is playing an important part in speeding our present economic readjustments. It is one of the factors, for instance, that is steadily improving the credit situation by expediting the movement of products that had long been held back from markets and thereby had kept large amounts of credit "frozen."

CAPITAL AND LABOR MUTUAL BENEFICIARIES

As our farmers should have learned in the last twelve months that, unfortunate as it undoubtedly is, they must take their losses, in common with all other business interests, due to the general decline of commodity prices, so labor should have learned that the alternative to working for wages which prevailing conditions will allow is to do without work. No one wants wide-spread unemployment, of course, because not only those who are out of work but all other elements of our population directly or indirectly suffer the consequences in some degree. But the extent of unemployment rests largely in the hands of labor. There is plenty of work to be done in this country, as well as throughout the world, but it is peace-time work and cannot be done on war-time wages. Readjustments of wage schedules must be made on a basis of declining prices and present

productiveness, and true scales must be established based on new conditions.

The tragic folly and bitter experience of the Russian people should have taught the world that capital and labor are mutual beneficiaries of their combined efforts, and that the relationship of capital to labor is not that of an overlord exploiting a helpless majority but only that of an intelligent fellow worker with common interest.

The experiences of 1920 also emphasize more than ever the urgent need for international peace and the stabilization of international relations. It is encouraging to note that American business men generally are beginning to realize thoroughly how dependent our welfare is upon stable conditions abroad.

INTERNATIONAL ECONOMIC RELATIONS

When the war ceased, shortsighted men thought that the United States, with its great riches, would escape the effects of the awful destruction of life and industry and wealth in Europe, as they had unwisely believed we could stay out of the conflict, and might prosper indefinitely upon the urgent needs of the remainder of the world. Here again the law of international economic relations, that no nation can prosper by itself alone, has been fully proved. The economic paralysis that began with the belligerent nations has slowly been spreading, until today it has affected every country throughout the world.

It is clear enough now that when two or three hundred million people are forced to reduce consumption and are unable to achieve more than a small percentage of customary production for a considerable period,

the surplus products of the rest of the world, upon which Europe formerly relied for raw materials or food supplies, accumulate in warehouses or lie ungathered, while the commodities for which they are normally exchanged fail to move over the trade routes between the nations. Yet it has taken two long years to bring about a general appreciation of this fact, and many have even assumed that it could be ignored.

One of the chief tasks of this year should be to aid in the restoration of Europe to normal production by using all our own great resources in finance and in initiative. Europe is for the most part courageously endeavoring to help herself—and that is her greatest asset, as well as our best guarantee. There are hopeful signs of recovery, particularly in England, France and Belgium, but until the terms of the German reparation are fixed and peace is made a reality there will be economic and social disturbance.

We, in America, should have the courage to meet the demands of after-war world conditions, if afflicted Europe is striving bravely to do so. We can far better afford as a nation to send our surplus cotton, grain, or other products to needy countries on long-term credits than to permit these commodities to lie unconsumed, while new crops are harvested and a new surplus of manufactured goods is forthcoming to depress prices still further in domestic markets and to retard industry. They might well be used to start production where it is checked and to set in active motion again the interchange of products between all countries. Our banks are doing much and are planning to do more in helping

to finance such foreign trade activities. Fortunately, our banking system, as a whole, is in a condition to permit such coöperation.

OUR STRONG BANKING POSITION

The credit expansion here since 1914 has occurred without destroying the essential safety and strength of the reserve position of our banks. Expansion of bank deposits and note circulation since 1914 is an outgrowth of an increased stock of gold and a more effective use of banks through the increasingly efficient use of the Federal Reserve System. The total resources of all banks of the United States on June 30, 1920, amounted to \$53,000,000,000, not including Federal Reserve Banks, a figure that exceeds the combined bank assets of all other leading nations of the world.

An incident in 1920 reflecting the strength of our banking system was that of the large payments made in the middle of December for taxes, the maturity of Treasury certificates and Liberty Bond interest at practically the same time. The huge shifting of funds which this occasioned took place with scarcely any effect, while it was not many years ago that a much smaller transfer of funds might have resulted in serious difficulties.

Our banks have been able and have had the wisdom to check the orgy of over-speculation and over-expansion following the war by raising discount rates, by requiring larger margins and safer collateral on loans, and by the restriction of credit to essential industries.

The period of readjustment, through which we are now passing, has been marked by the most rapid and extensive decline in prices in our history. And measured by

actual test under such conditions, which is the essential thing, our banking system has proved to be sound and not unduly expanded.

TO SUSTAIN OUR FOREIGN TRADE

As further evidence of their ability and desire to coöperate in the movement toward relieving strained trade conditions, the banking interests throughout the country are now coöperating with nation-wide agricultural and industrial interests in the formation of a \$100,000,000 Edge Law Corporation, which is designed to stimulate our foreign trade and at the same time relieve strains on domestic credit. But, in order to be successful on the gigantic scale that the situation demands, this project must have the active support not only of all banks but also of all industrial, agricultural and business interests generally.

It is a matter of congratulation for New York bankers that the committee of the American Bankers Association which formulated this plan has been so ably directed by one of their number, Mr. John McHugh. The plan which has been worked out for the organization of this corporation offers a possible and practical solution of the problem of financing the purchase of our surplus production abroad. If carried out, it will place the United States in a position of leadership in world trade and help vastly in restoring the world to a normal economic basis, as well as aid in maintaining our domestic prosperity. The conception of this plan was one of the interesting events of the year. It deserves, and I have no doubt will receive, the cordial support of the intelligent business and banking community.

Now that we have passed the most critical period in our post-war readjustment process, let us profit by the many lessons that it has taught us and look forward to the future confidently and constructively, for only our own folly can prevent us from realizing and capitalizing the unprecedented possibilities and opportunities that lie immediately ahead of us.

There are problems before us to which the banking community must give heed—which, indeed, demand our serious consideration and coöperation. Every period of money strain and business depression brings forth a fresh crop of panaceas, for the most part unsound, and usually vitally affecting banking practices and financial integrity. Such revenue proposals as a tax upon undivided profits and bank deposits; such class legislation as special forms of credit for agriculture or real estate, framed without regard to the general business welfare and in the furtherance of some special interest; proposed investigations into banking activities for political purposes; efforts to create fiat money and credit; new and restrictive forms of regulation, all spring from an atmosphere of discontent and in a universal attempt to find both the cause and the cure for economic disturbances outside of the operation of economic laws. Against all such efforts we must be upon our guard, not only in the protection of the interests entrusted to us, but even more in the protection of the public interest, which can be furthered only by the maintenance of a sound, intelligently administered banking system.

STABILIZATION OF MIND NEEDED

Finally, it is hoped that the experiences of 1920 have brought us to a saner attitude than that which we took

during the stress of the war and its immediate aftermath. This nation, in common with others, needs even more than stabilization of prices and economic conditions, a stabilization of mind. It is time for us to turn away from those false prophets who have inflicted their fallacious theories upon a suffering world, willing, in its misery, to try any alleged cure for economic and political ills. It is time for us to turn a deaf ear to pessimists and rumor-mongers, whose thoughtlessness or maliciousness is frequently as dangerous and criminal as it is unjust and unwarranted.

Such perverted thinking and loose talking as have ruined a great state like Russia are now seeking to injure our private and public institutions, and are striving to undermine our national Constitution and form of government. They are productive of such a dastardly assault upon life and property as was made a few months ago in the heart of the financial district. They are responsible today for the utterly false and absurd rumors surreptitiously circulated about solvent firms and sound financial institutions. In the public press, the parlor, or on the platform they are destructive of public confidence and subversive of public interest and must be stamped out, although I am a firm believer in the power of the truth to prevail eventually despite all the efforts of her traducers. I am equally confident that in the end the instigators of such attacks will find that their lies act as boomerangs. They are bound to discover that Abraham Lincoln thoroughly understood the American people when he said, "You can fool some of the people all the time, and all of the people some of the time, but you can't fool all the people all the time." And the American public has effective ways of dealing with those who attempt to deceive it.

The situation today demands, above all things, wise and courageous leadership, and behind it the intelligent cooperation of constructive forces. Great power for public service and the preservation of American institutions lies in the hands of the bankers of this group. We believe that the political, social and economic system of this country has, on the whole, justified itself as more productive of human happiness and progress than any which the world has yet tried, in spite of the obvious limitations of human nature. To forsake the established order of democracy, economic sanity and private enterprise, to follow false gods into untried fields of experiment, would be suicidal folly, and right-minded, responsible men must be on their guard as never before to resist such efforts.

The responsibility lies heavy upon us, as the holders of a large part of the world's resources, the keepers of the world's welfare and the guardians of its future, to respond intelligently and generously to the world's combined call of duty and opportunity.

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